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Deer Horn Mines Limited

Incorporated under the Companies Act
Province of Ontario

REPORT AND AUDITOR'S STATEMENT

For Period Ended December 31, 1961

DIRECTORS

DENISON DENNY

President and Managing Director

J. G. PIERDON

Vice-President and General Manager

L. MURPHY

Treasurer and Director

P. A. CHUBB

Director

J. D. SMITH

Director

MARGARET B. SMITH

Secretary

HEAD OFFICE

100 ADELAIDE ST. WEST - TORONTO, CANADA

TRANSFER AGENTS AND REGISTRARS

CHARTERED TRUST COMPANY

AUDITORS

ROGERS & ROBERTS

DEER HORN M

(Incorporated under the la

BALANC

As at 31st 1

ASSETS

Current:		
Cash	\$	6,888
Metal settlements receivable — estimated		69,106
Concentrates on hand, at estimated net amount receivable		22,050
Prepaid expenses and sundry assets		6,187
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	\$	104,231
Mining lands and rights:		
Crown patented and unpatented claims — British Columbia, at nominal value		1
Mining claims and lease under option — Ontario (Note 1)		83,962
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		83,963
Buildings, plant and equipment:		
At value determined by Board of Directors in 1958, less proceeds from disposals		34,183
Subsequent additions, at cost		98,811
Milling plant under option (Note 2)		52,500
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		185,494
Deferred and other:		
Hydro deposit		2,550
Inventory of supplies, at cost		7,515
Deferred development and administration expenses — as per schedule attached		698,444
Organization expenses		4,479
		<hr/>
		712,988
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		<u>\$1,086,676</u>

LIABILITIES

Current:		
Bank advances — secured	\$	20,000
Payroll payable		7,021
Accounts payable and accrued expenses		39,158
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	\$	66,179
Other:		
Loans and advances by associated companies		29,355
Capital:		
Capital stock: (Note 3)		
Authorized —		
5,000,000 shares of a par value of \$1.00 each		
Issued fully paid —	No. of shares and par value	Discount
At 31st December, 1960	3,335,005	\$1,790,000
Issued during year:		
On conversion of loan	300,000	240,000
For cash	600,000	455,000
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At 31 December, 1961	4,235,005	\$2,485,000
Deduct: Deficit		758,863
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		991,142
Approved on behalf of the Board:		
D. DENNY, Director.		
L. MURPHY, Director.		
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		<u>\$1,086,676</u>

NOTES TO FINANCIAL STATEMENTS — 31st DECEMBER, 1961

- Mining claims and lease under option.**
The balance payable under the option agreement for purchase of mining claims and lease is \$76,039. Payment is to be made on the basis of 10% of net smelter returns from ore shipped from the properties with a minimum payment of \$2,500 yearly.
- Milling plant under option.**
The balance payable under the option agreement for purchase of the milling plant is \$22,500 payable in monthly instalments of \$3,500 commencing 1st March, 1962.
- Capital stock.**
At 31st December, 1961, there were outstanding options on 400,000 shares of the company's capital stock. The option on 50,000 shares at 32½¢ per share was exercised on 27th January, 1962 and the remaining options are now exercisable as follows:
150,000 shares at 32½¢ per share exercisable by 27th April 1962
200,000 shares at 37½¢ per share exercisable by 27th July, 1962

The President and Directors,
Deer Horn Mines Limited,
1010 — 100 Adelaide Street West,
Toronto 1, Ontario.

Cobalt, Ontario,
June 7, 1962.

Gentlemen:

I take pleasure in submitting for your consideration the following report covering your Company's operation at the Cross Lake Mine near Cobalt for the year ending December 31, 1961.

SUMMARY

Six new silver zones were located by diamond drilling in 1961 and access was completed near the year end to develop these six occurrences.

Milling was suspended from March 1 to October 1.

The main shaft was deepened to the 640 foot level and No. 2 winze was dewatered, rehabilitated and equipped to the bottom or 800 foot level.

EXPLORATION AND DEVELOPMENT

Six new silver zones were located between the 270 and 800 foot levels of the mine mostly by diamond drilling. These zones are briefly described as follows:

No. 28 VEIN — This east-west trending vein was located on the Reinhardt claim and high-grade intersections obtained between the 640 and 800 foot levels. No. 2 winze was rehabilitated and a crosscut put out on the 800 foot level to develop this ore. This vein is productive in both diabase and keewatin host rocks.

No. 35 VEIN — This vein was also located by diamond drilling on the Reinhardt claim at the same horizon as No. 28 vein. It possesses a general north-south strike but its productivity has so far been confined to the diabase.

701 SOUTH VEIN — The ore, in this new zone, was found in quartz porphyry extending over widths up to 25 feet. This ore has been developed so far only above the 640 foot level.

No. 6 VEIN EAST — The extension east of No. 6 vein was located by diamond drilling and a short crosscut completed to develop this ore on the 395 foot level. The bulk of this ore is contained in keewatin lamprophyre.

No. 25 VEIN WEST — A new silver zone was isolated on No. 25 vein about 500 feet west of the original discovery. This ore contains considerable high-grade material and is located in keewatin tuffs starting about 60 feet above the 395 foot level.

No. 25 VEIN EAST — This new ore shoot was picked up by diamond drilling near the year end. It contains some very rich high-grade in a keewatin lamprophyre host rock and does not appear to extend up into the overlying cobalt series.

PRELIMINARY MINING

Preliminary mining was carried out in eleven main zones between the 270 and 640 foot levels on the eight veins, No. 1, No. 2, No. 6, No. 25, No. 26, No. 27, No. 28 and No. 33. A total of 9,665 tons was broken in this work.

The following is a tabulated summary of the development program carried out in 1961:

Drifting	917.0 feet
Crosscutting	490.0 feet
Raising	1,662.0 feet
Sinking	39.0 feet
Diamond Drilling (underground)	18,196.0 feet
Ore broken in preliminary mining	9,665.0 tons
Ore hoisted	10,005.0 tons
Ore milled	8,725.0 tons

MILLING

In order to permit new development to be carried out and ore reserves to be built up, the mill operated for only five months of the year.

Total tons milled	8,725
Total silver recovered	145,032 ounces
Calculated mill heads per ton	17.1 ounces silver
Extraction efficiency	97.0 %

GENERAL

There was no main building addition during 1961.

The main capital expenditure consisted of deepening the shaft to the 640 foot level, dewatering, rehabilitation and equipping No. 2 winze from the 640 to the 800 foot levels and the driving of a 400 foot crosscut west on the 800 foot level. The main equipment items added were: winze headframe, hoist, cage, pumps and air trammer.

Silver concentrates were shipped to Noranda Mines Smelter and The American Smelting and Refining Company.

The average price per ounce of silver paid for was 99¢ Canadian funds.

The average return per contained ounce after marketing was 88¢ Canadian funds.

I very much appreciate the effective co-operation of employees, staff and Board of Directors.

Respectfully submitted,
DEER HORN MINES LIMITED.
J. E. ARMSTRONG,
Mine Manager.

MINES LIMITED

(Incorporated in the Province of Ontario)

BALANCE SHEET

December 31, 1961

STATEMENT OF DEVELOPMENT AND ADMINISTRATION EXPENSES

For Year Ended 31st December, 1961

Cobalt property:

Balance, 1st January, 1961 \$ 23,578

Expenses for year:

Exploration, development and mining \$ 190,285
Hauling ore and concentrates 4,785
Mill operating 32,558
Mine office general expenses 26,997
Minimum rent on lease 5,000

Head office administration expenses:

Management fees and rent \$ 8,750
Audit and legal 1,025
Engineering report 200
Printing, stationery and office expense 541
Taxes and fees 233
Telephone and telegraph 159
Transfer agents' fees 692
Travelling expenses 411
Miscellaneous 155

12,166

Interest and financing expenses 1,157

272,948

Less:

Value of metals produced during year less smelter charges and marketing expenses 137,414

135,534

159,112

Deduct: Adjustments re prior year —

Royalties applied on purchase price of mining claims and lease under option 39,580
Mill rental applied on purchase price under option 32,398
Overprovision for Province of Ontario Mining tax 28

72,006

Balance, 31st December, 1961 87,106

British Columbia properties:

Balance, 1st January, 1961 611,050
Add: Acreage taxes 288

611,338

Balance, 31st December, 1961 \$ 698,444

AUDITORS' REPORT

To the Shareholders of
Deer Horn Mines Limited.

We have examined the balance sheet of Deer Horn Mines Limited as at 31st December, 1961 and the statement of development and administration expenses for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and statement of development and administration expenses present fairly the financial position of the company as at 31st December, 1961 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
6th April, 1962.

ROGERS & ROBERTS,
Chartered Accountants.

DEER HORN MINES LIMITED

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

Submitted herewith please find financial statements of the Company for the year ended 31st of December, 1961, the Report of the Auditors, and the Report of the Mine Manager.

FINANCIAL

During the year 600,000 treasury shares were sold to net \$145,000.

Fifty thousand shares have been taken up since the year end at 32½ cents per share. Further options on 150,000 shares at 32½ cents and on 200,000 shares at 37½ cents per share were not exercised and have lapsed.

Due to the increase in the silver price, the estimated amounts to be received from metal settlements and concentrates on hand will be appreciably higher.

The bank advances represent a revolving credit against receipt of metal settlements.

Note 1 of the Balance Sheet reflects the change in the option on mining claims and leases, reported in the last Annual Report. Substantial reductions of the balance payable will be effected upon receipt of payments for metals produced since the first of the year.

In the Statement of Development and Administration Expenses it will be noted that certain adjustments re: prior year have been made. Royalties and mill rental, previously charged to development expense, have now been capitalized.

In connection with the milling plant under option the balance payable is only \$8,500.

OPERATIONS

The Report of the Mine Manager is submitted herewith and summarizes operations for 1961.

It will be noted that the mill operated for only five months on relatively low grade ore. This was due to the fact that little high-grade was encountered in development. However, since the first of the year, some excellent high-grade has been opened up, resulting in higher mill heads.

Developments since the year-end may be summarized as follows:—

1. While rehabilitation of the Cross Lake-O'Brien workings has not been as extensive as in previous years it is continuing. Recently a caved section on the 450 foot level has been cleared, opening up a long crosscut into the southern part of the property. Very little exploration was done in this area previously and a diamond drilling programme is being started.
2. Apart from the Nos. 28 and 35 Veins, referred to in the Report of the Mine Manager, exploratory drilling of part of the Reinhardt claims has encountered several promising veins, but no ore shoots. This programme is continuing.
3. Patient work has opened up another high-grade ore shoot in the No. 25 Vein, between the 390 and 270 foot levels. Approximately six tons of hand cobbled ore, running about 8,000 ounces to the ton, have been produced in April and May. The extent of this rich shoot has not yet been determined. Excellent mill rock has resulted from this development which should show in increased mill heads in the near future.
4. Very recently, a new zone of disseminated silver in rhyolite porphyry has been picked up by diamond drilling, extending from just above the 590 foot level to the 525 foot level and above. Since some of the drill holes have widths of up to 15 feet, the tonnage implications are evident. Crosscutting to this new zone is under way.
5. The mill has operated continuously since the first of the year. For part of May, as an accommodation, approximately 1,000 tons of ore were milled for Rix Athabaska Mines Limited.

For the four months to April over 150,000 ounces of silver have been produced, more than covering development and administration expenses.

Since re-opening the old Cross Lake-O'Brien Mine, almost 900,000 ounces of silver have been produced.

6. The increase in the price of silver, plus the devaluation of the Canadian dollar, have been of great importance. This is clearly shown by a comparison of the average price paid per ounce of silver, in Canadian funds.

<u>Year</u>	<u>Price</u>
1960	\$0.89
1961	0.99
May, 1962	1.11

GENERAL

Extensive exploration is taking place in both the Reinhardt claims and in previously undeveloped sections of the Cross Lake-O'Brien Mine.

In the meantime, the forward ore position is as favourable as at any time since the re-opening of the mine. The liquid, working capital of the Company has improved since the year-end.

In conclusion, your directors would like to express their appreciation of the tireless efforts of Mr. J. E. Armstrong, and his staff, on the Company's behalf.

By Order of the Board,

DENISON DENNY,
President.

Toronto, Ontario,
June 4th, 1962.

